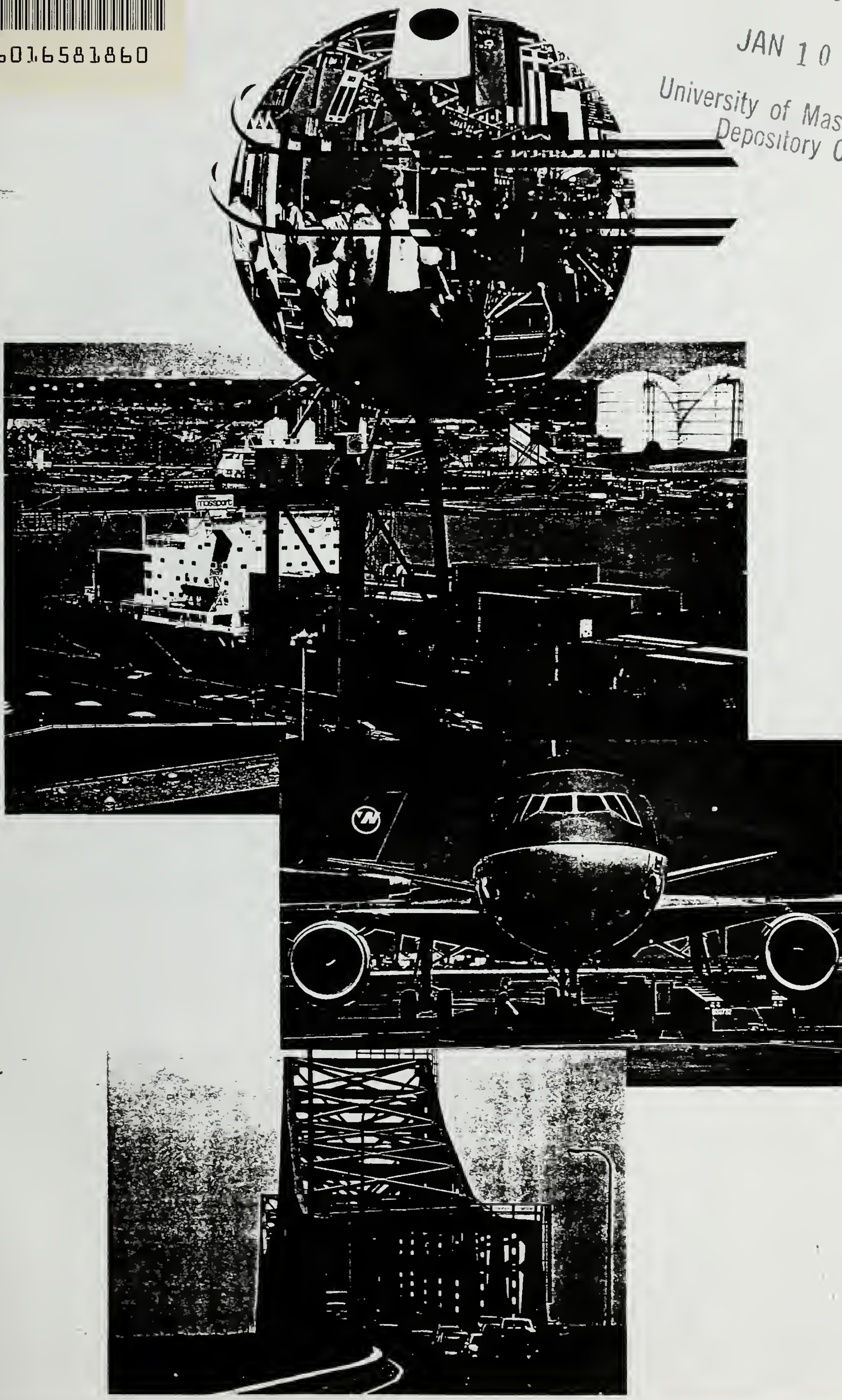
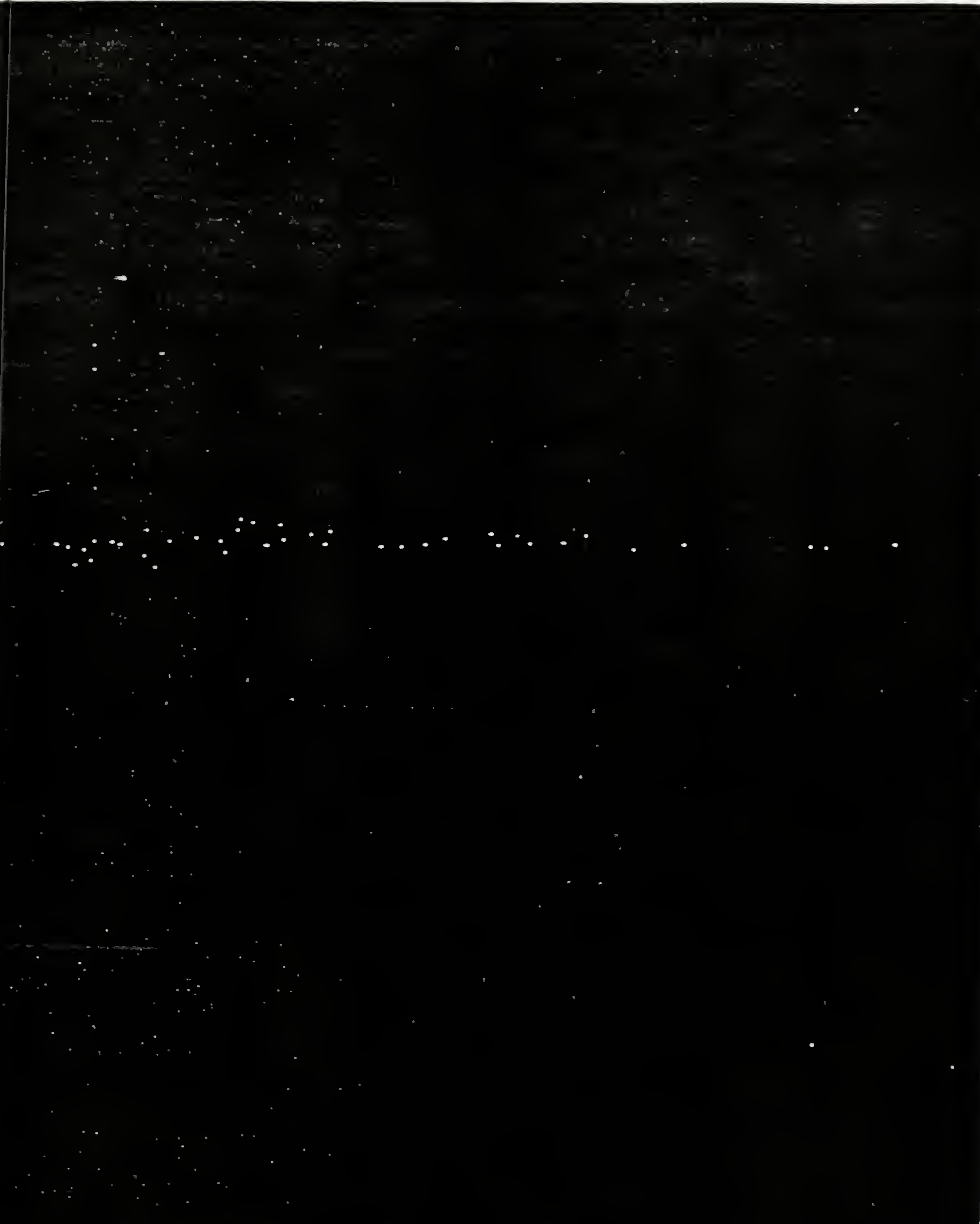
Massachusetts Port Authority

1993 Annual Report





Message

from the Executive Director

As Massport's new executive director, I'm eager to face the challenges that this agency presents, and I'm excited by the world of opportunities that exist.

As the former secretary of economic affairs for the Commonwealth of Massachusetts, I came to Massport with a unique understanding of this agency's immense contribution to the local economy. Last year alone Massport's facilities infused 6.6 billion dollars into Massachusetts. In addition, Massport-run operations provided over 24,000 jobs for private sector businesses and industries.

As impressive as these statistics are, the new Massport administration will not be content to ride the coattails of past success. At no time in this agency's history has Massport's commitment to economic development been more important to the people of Massachusetts.

With a comprehensive capital investment plan for all Massport facilities, and ambitious international trade and tourism marketing programs, Massport's upcoming agenda directly supports Governor William Weld's statewide strategy to create an environment in Massachusetts that encourages business growth and job creation.

In the next few years, such projects as the Logan Modernization Plan, the expansion of Conley Terminal and other maritime terminals, the redecking and repainting of the Tobin Bridge, and the maintenance of Hanscom Field as a first-class general aviation airfield, will inject over two billion dollars in construction funds into our state's economy,

create thousands of jobs, and help our state's businesses get people and goods where they need to go in a timely and competitive fashion.

As I continue with plans to modernize Logan's passenger facilities I also want to follow the FAA's direction to review our airport runway plans. In support of the state's second largest industry, tourism, I intend to work with Governor Weld and Mayor Menino to increase convention capacity in Boston. And as the airport and seaport sharpen their competitive edges as the international gateways to New England, I plan to market Boston's advantages to the world.

Massachusetts needs an intermodal transportation network that can move goods and people not only from the Berkshires to the Massachusetts Bay, but from the Mid-West to the Middle East, and Massport has the resources to make this happen.

I believe the next decade will bring greater change to our world than that of the last three decades combined. We can either be a part of leading those changes, or we will be surpassed — overwhelmed by the advancements that those changes bring.

I choose to compete; to create what the change should be. I pledge to use the talent and resources at Massport to build an ambitious future for all families and communities in Massachusetts.

Stephen P. Tocco

Executive Director & CEO

Aviation

Cleared for Take-off

THE FUTURE OF LOGAN INTERNATIONAL AIRPORT IS A CRUCIAL ELEMENT IN THE LIFE AND GROWTH OF THE MASSACHUSETTS ECONOMY. A HARD WORKING ASSET FOR MASSACHUSETTS AND NEW ENGLAND, LOGAN AIRPORT STIMULATES THE REGION'S ECONOMY BY MORE THAN $4.4 BILLION EACH YEAR—AN AVERAGE OF MORE THAN $12 MILLION EVERY DAY. MORE THAN 15,000 PEOPLE ARE EMPLOYED AT LOGAN AIRPORT—ONLY 580 OF WHOM ARE EMPLOYED BY MASSPORT—WHICH IS ALSO HOME TO MORE THAN 100 PRIVATE BUSINESSES.

With an annual volume of over 23 million passengers, Logan is the 10th busiest airport in the United States and the 17th busiest in the world. In the transatlantic market, Logan Airport ranks fourth as an international gateway, surpassed on the East Coast only by New York's Kennedy Airport.

Over the next decade, Massport will invest over a billion dollars in a Logan Modernization Plan to accommodate the growth in air traffic which a recovering economy is sure to generate. Even conservative estimates project that 37 million passengers will be using Logan Airport by the year 2010.

As it stands now, Logan's airfield and groundside capacity is severely strained. For Boston to establish itself as the capital of the Atlantic Rim, and for New England to be a first-class, economic power, an innovative, 21st century international airport is a must—one with significant capacity enhancement programs.

The Logan Airport modernization plan, a package of passenger terminal, airport infrastructure, and regional transportation projects will create a more efficient airport for travelers, make better use of limited space, and respond to the region's economic needs, now and in the future.

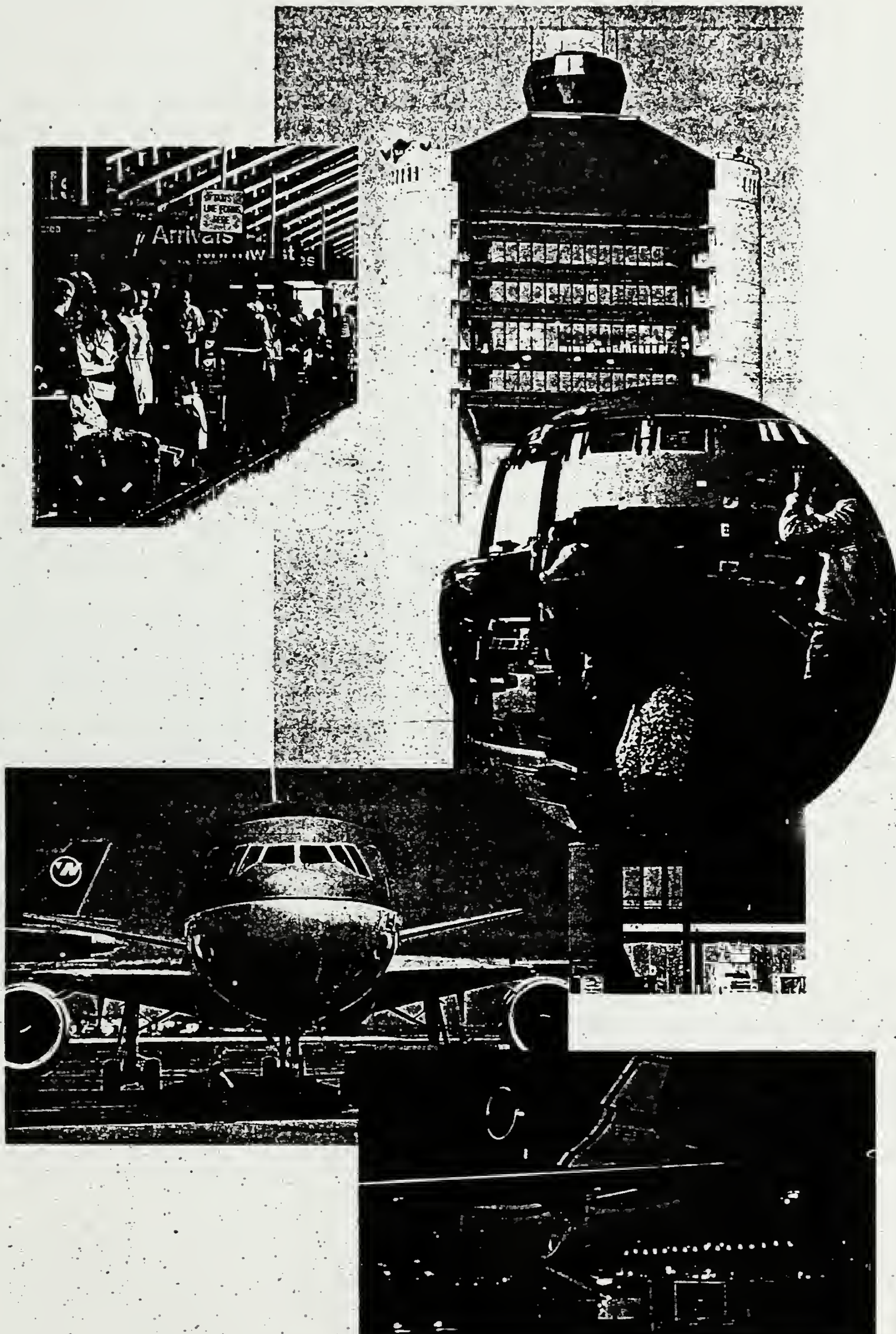
Massport's plans include an expanded International Terminal; a new customs hall; a complete replacement of the aging Terminal A; a revamped airport roadway system and the addition of a second garage; a people-mover system; an airside connector tunnel for baggage trucks and other service vehicles; and a new jet fuel distribution system.

Although construction is still ahead, major pre-construction requirements were completed this year:

- A draft Generic Environmental Impact Report, covering the entire airport program was approved by the state's Secretary of Environmental Affairs.

- Massport completed the Facilities Plan for the terminal area, a blueprint that weaves together a series of projects that will be designed and constructed over time—as passenger demand, environmental approval, and financial resources dictate.

- The Federal Aviation Administration (FAA) approved a $3 passenger facility charge (PFC) that is earmarked to fund $599 million in Logan Modernization and Soundproofing Projects.


Arrivals

• Construction is under way on two key airfield safety projects—a new $8.9 million aircraft rescue and fire fighting facility, and a series of safety ramps at runway ends—put Logan Airport on the cutting edge of emergency response in world aviation.

• The $40 million Harborside Conference Center and Hotel opened in June, featuring extensive meeting space and 270 guest rooms. The completed facility has generated 210 long-term jobs.

• 400,000 square feet of air cargo and office space on Logan South is nearly completed and rented. This $42 million investment supports Massport's commitment to international trade. Logan's cargo facilities move 818.5 million pounds of cargo and mail annually which ranks Logan 25th for cargo service in the world.

Few metropolitan airports are so conveniently located to the city center, or are so closely bordered by densely populated urban neighborhoods or environmentally sensitive tidal wetlands. And few, of the other major U.S. airports have such a high percentage of non-transfer passengers. Nearly 90 percent of Logan passengers are beginning or finishing their air travel at Logan. This creates the need for tailor-made programs to deal with ground access.

• The overall use of ground transportation alternatives has increased by 70 percent at Logan since 1984, when Massport first began developing its network of convenient and environmentally sound ground transportation programs. Woburn Logan Express joined the network last fall, providing the first north suburban link in the system. A new airport-style waiting room is currently under construction in Woburn.

• Massport joined the MBTA in breaking ground for a unique "one stop" airport terminal at South Station. From this convenient downtown location, easily accessible by commuter rail, T, or bus, passengers will be able to buy tickets, check their bags, and take a designated bus through the new Third Harbor Tunnel directly to their airline terminal.

• A garage for 1,500 Logan employees is under construction in Chelsea. The garage, a result of Massport's commitment to encourage business development in Chelsea, will generate approximately $500,000 per year in additional revenue to that city. With the same stroke, Massport removes a significant number of vehicle trips off the airport's roadways.

With one of the most aggressive noise abatement programs in the country, Massport has mitigated the effects of noise through strong regulations and successful noise reduction programs:

• Massport soundproofed 50 percent more homes in FY 93, in a plan to accelerate the number of homes sound-insulated in East Boston, Winthrop and Revere. By the end of 1993, nearly 2100 residential units (or 1,160 houses) will be treated.

• The new Boeing 747-4000 and McDonnell Douglas MD-1 aircraft made their debut in regular service at Logan last year. Both of these new aircraft are powered by quieter Stage 3 jet engines and their introduction into service helped boost the Stage 3 percentage of Logan's operations from 60 to 66 percent—well above the national average.

Maritime

Reclaiming a City's Legacy

BOSTON'S HISTORIC WATERFRONT IS A VALUABLE ECONOMIC, TRANSPORTATION, AND RECREATIONAL RESOURCE FOR THE ENTIRE NEW ENGLAND REGION. MASSPORT'S PUBLIC MARINE TERMINALS ENSURE THAT MASSACHUSETTS IS AN EFFECTIVE COMPETITOR IN THE INTERNATIONAL MARKETPLACE, HELPING OUR STATE'S BUSINESS COMMUNITY REACH OUT TO NEW OPPORTUNITIES AROUND THE GLOBE. AND AT A TIME WHEN MORE PEOPLE ARE REDISCOVERING THEIR HARBOR BECAUSE OF EVENTS LIKE "SAIL BOSTON", MASSPORT IS ALSO SAFEGUARDING THIS RESOURCE FOR INCREASED PUBLIC ENJOYMENT.

Massport's port and waterfront properties contribute over $2 billion annually to the local economy, generating more than 7,400 jobs.

In 1990 Massport announced a long-term strategy to advance the dream of a vital and productive waterfront. The strategy, consisting of important container terminal, dredging, and rail components, is designed to ensure that the Port of Boston can handle the shipping industry's increasingly larger vessels, as well as the growing opportunities generated by joint Massport and Commonwealth of Massachusetts trade missions to key markets around the world. Many initiatives in FY 93 advanced the Port of Boston's competitive edge:

- New direct rail service from Moran Terminal to the Midwest and Canada through a distribution center at Fort Devens was launched last spring in a cooperative effort among the Commonwealth, the railroads, and other members of the port community to improve intermodal service to the Port. Given Boston's advantageous location — one day closer to Europe — the Port gains an added competitive edge over other East Coast cities for steamship and container traffic.

- The expansion project at Conley Container Terminal is transforming Conley's container capacity from a single "Panamax" berth to two berths capable of handling the container shipping industry's next generation—the "post Panamax" vessels. The project entered its final stage with a contract with Paceco Corporation to fabricate Conley's two massive new Post-Panamax cranes. The reach of two existing cranes has been extended, the backland storage space has been doubled in size, and the second berth is being built.


LYKES LINES

• Majesty Cruise Lines announced a dramatic increase to the cruise line-up at the Black Falcon Cruise Terminal. Majesty will launch weekly Boston-to-Bermuda cruises in the spring of 1994, thanks to aggressive efforts by Massport's maritime and marketing divisions. The 1993 cruise season was a $6.8 million winner for the local economy. The addition of 27 cruises for the 1994 season is expected to generate $9 million more, for a projected total economic impact of nearly $16 million next season.

• Massport served as the local sponsor, joining the U.S. Army Corps of Engineers, on a harbor dredging project. The project will deepen the harbor's principal shipping channels and cargo berths to accommodate larger vessels expected in the commercial fleets of the future.

• Lykes Lines of New Orleans began Boston's first direct outbound service from Conley Terminal to Europe this spring, a longstanding Massport goal.

• Massport has worked cooperatively with the Highway Department to ensure that the Tunnel project enhances access to the seaport and airport. The tunnel tubes have been berthed and outfitted at Massport's Army Base pier.

• A development agreement for the expansion of the World Trade Center has been concluded between Massport and the John Drew Company, World Trade Center developer. Eventually, the expansion will include a hotel, garages, office buildings and open space.

• Construction commenced this spring on the East Boston Piers Park. Massport's $14 million investment will transform two underutilized and dilapidated waterfront piers into a vibrant, oceanfront park.

Trade & Tourism

Pathways to the Global Marketplace

THE EXPANSION OF MASSPORT'S INTERNATIONAL TRADE EFFORTS AND MASSPORT'S PROGRAMS TO PROMOTE LONG-DISTANCE TOURISM—BOTH INTERNATIONAL AND DOMESTIC—ARE ACTIONS THAT CAN SIGNIFICANTLY ENHANCE BUSINESS FOR THE STATE. GOVERNOR WELD AND LIEUTENANT GOVERNOR CELLUCCI'S COMMITMENT TO EXPAND THE COMMONWEALTH'S ROLE IN THE GLOBAL MARKETPLACE WAS STRONGLY SUPPORTED BY MASSPORT IN FY 93, AS THE AGENCY COMPETED AGGRESSIVELY WITH OTHER STATES FOR A SHARE OF THE RAPIDLY GROWING MARKETS OF THE FAR EAST, EUROPE AND CANADA. BOSTON'S PRIME LOCATION ON KEY ATLANTIC TRADE AND TRAVEL ROUTES—AS WELL AS THE AGENCY'S ENVIABLE REPUTATION FOR PROVIDING EFFICIENT AND FAST SERVICE THROUGH THE AIRPORT AND SEAPORT—WILL CERTAINLY GIVE BOSTON AN ECONOMIC BOOST IN THE COMING DECADE.

In 1993 Massport forged successful joint ventures with private sector business, the Commonwealth of Massachusetts Executive Office of Economic Affairs, the Massachusetts Office of Travel and Tourism, the Greater Boston Convention and Visitors Bureau, and the Massachusetts Convention Center Authority to find new overseas markets for Massachusetts products and services, and in attracting more international visitors to the state. And new markets, ultimately translate into new jobs.

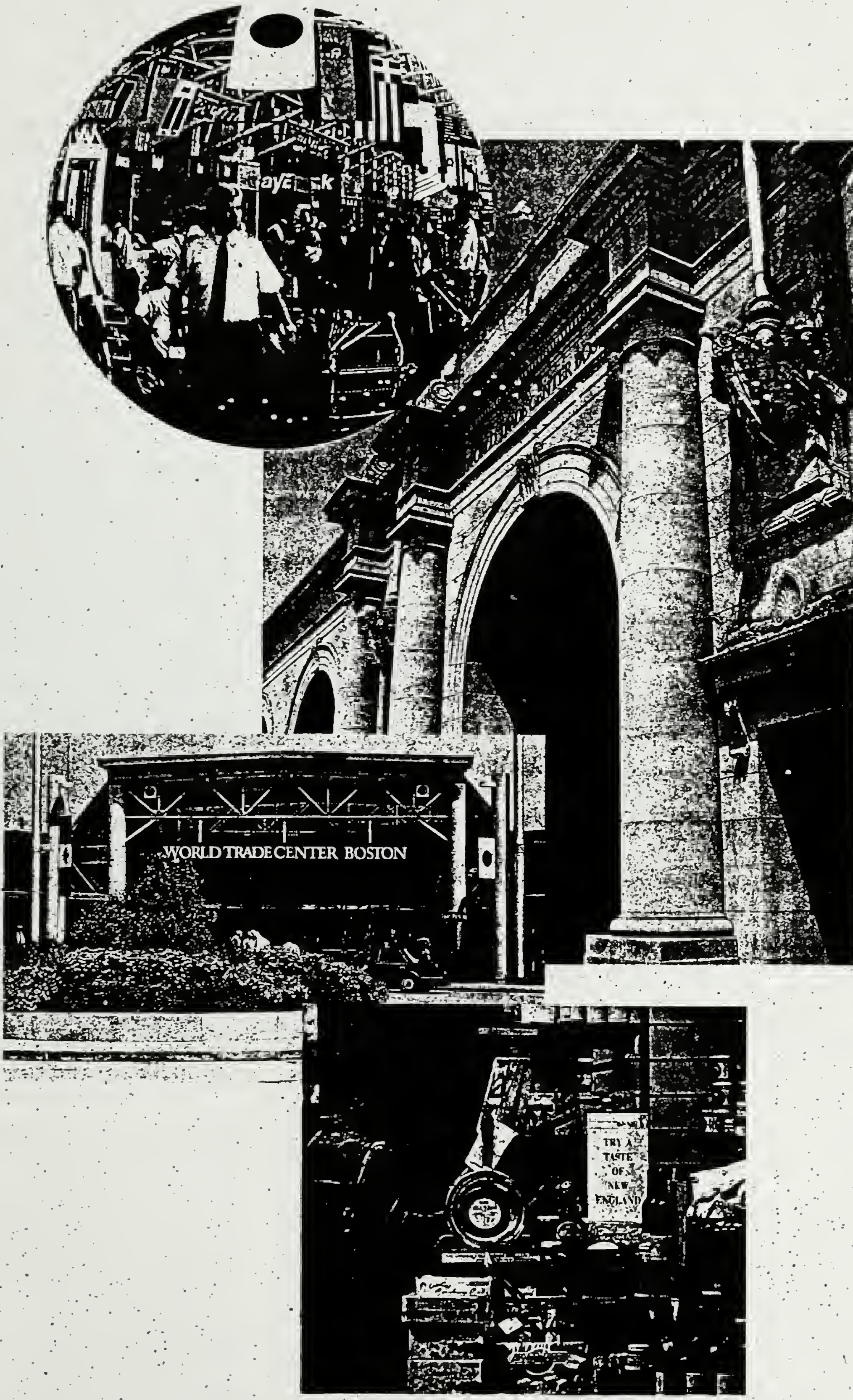
Creating International Business

With the barriers to trade coming down everywhere, Massachusetts businesses have unlimited access to world markets. Providing international knowledge on a local level is what Massport's Trade Development Unit does best. Massport worked with nearly 800 companies last year, generating $53.9 million in projected exports. Massport organized fourteen trade shows and missions; seven industry briefings, eight seminars and conferences, and 33 speaking engagements. On a global scale, Massport was in the right markets in FY 93:

- Overseas offices in London, Tokyo and Berlin, and a network of trade representatives in Taiwan, Singapore, Italy and Mexico City provided international marketing savvy, support and experience to local companies assessing potential new markets.

- Massport organized trade missions to Germany, Italy, Japan, France, England, Taiwan, Singapore, Poland, Egypt, Brazil and Mexico. One telecommunications mission alone to Sao Paulo, Brazil and Mexico City, Mexico resulted in projected sales of $33 million for eight local telecommunications companies.

- Massport plugged into a worldwide trade information network called ACCESS. Developed with the


WORLD TRADE CENTER BOSTON
TRY A
TASTE
OF
NEW
ENGLAND

Massachusetts Institute of Social and Economic Research, the system instantly provides trade leads, contacts, statistics, marketing reports and a calendar of international trade events for Massport and any local company that wants to research a specific market.

Trade and Tourism Go Hand in Hand

- During the 1992 Christmas season, Massport organized one of the most ambitious trade and tourism campaigns in New England history. The centerpiece was a six-week Christmas retail promotion at Harrods of London, involving over 110 New England companies and the purchase of more than $4 million worth of New England products. In addition, Massport joined with the six New England states to stage a week-long vacation sales campaign at London's World Travel Market. Promotional efforts in the UK have resulted in a 34 percent increase in bookings from the UK to Boston and New England from last year.

Selling New England

Massport plays an active role in support of the region's tourism industry—a $12 billion business in New England. Last year, Logan Airport and the Black Falcon Cruise Terminal were the gateways for over 11 million arriving passengers—approximately 5 million of whom were visitors. Domestic and international visitors served by these facilities fueled the local economy by nearly $2.1 billion.

In the past three years Massport has expanded its overseas marketing programs by adding two new representatives in France and Italy, providing Massport with a tourism presence in all five of its major markets: the United Kingdom, Japan, Germany, Italy and France. Travel trade familiarization trips, sales promotions, and press outreach in Europe and Japan has netted significant results:

- Since 1990, visitors to Massachusetts have increased from the UK (+60 percent); Germany (+40 percent); France (+9 percent); Italy (+50 percent); and Japan (+74 percent).

- In Europe, Massport works closely with five tour operators in the UK, three in France, three in Italy and two in Germany. Britain's Virgin Holidays sold 105 percent more packages to Boston and New England in 1993 and Airtours Germany is reporting a 300 percent increase in sales.

- In Japan, Massport participates in cooperative programs with 15 tour operators. Called "The Boston Campaign," the aim is to double the number of packages sold last year and to encourage Japanese tourists to stay longer.

Tobin Bridge

Tuned to Traffic

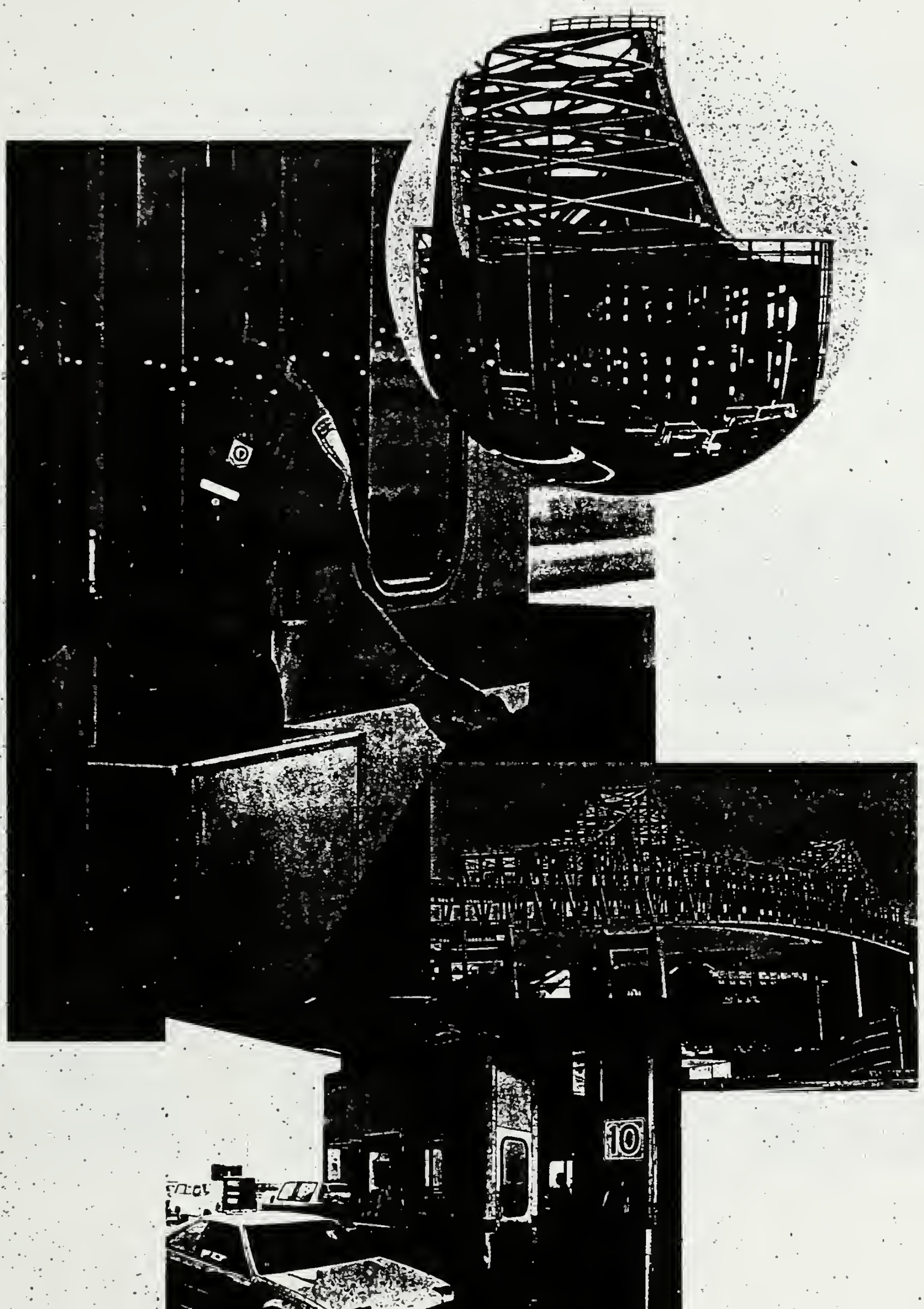
AS THE PRIMARY ROUTE BETWEEN BOSTON AND THE NORTH SHORE, THE TOBIN IS AN IMPORTANT LINK IN A LARGER ROADWAY NETWORK THAT INCLUDES THE CENTRAL NORTH AREA PROJECT (CANA) AND THE FUTURE RECONSTRUCTION OF THE CENTRAL ARTERY. MORE THAN 22 MILLION VEHICLES CROSS THE MYSTIC RIVER EACH YEAR VIA THE TOBIN; STATISTICALLY, THE SAFEST ROADWAY IN THE COMMONWEALTH. IT CONTRIBUTES NEARLY $15 MILLION TO THE AREA ECONOMY THROUGH ITS OPERATION AND MAINTENANCE PROJECTS ANNUALLY.

Like other Massport facilities, the Tobin Bridge is also preparing for the 21st century. Major capital investment in the Tobin Bridge totals close to $35 million, including $10 million for deck rehabilitation, $22 million for structural painting, and $3 million for toll plaza reconstruction.

Smart Tolls and Easy Pass

- In FY 93, the toll plaza was reconstructed to include state-of-the art booths and the installation of a sophisticated toll collection and recording system. The toll plaza had not been updated since its original installation in the late 1940s.

- For 90 days last spring, the Tobin Bridge was temporarily transformed into a toll facility of the future, thanks to a promising new industry advancement, automatic vehicle identification (AVI). AVI uses specially encoded tags to automatically levy a toll against a vehicle without requiring a stop to manually pay a fee. The test included participating vehicles from the Highway Department, the Turnpike Authority, CARAVAN, the MBTA, the State Police, and members of the Mass Motor Transport Association. With interagency cooperation, AVI has statewide and regional implications. Massachusetts' roadways of the future must be totally integrated so that people and goods can move fluidly locally and ultimately into the interstate highway system.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Massport

Board Members

THE MASSPORT BOARD CONSISTS OF SEVEN MEMBERS APPOINTED BY THE GOVERNOR OF MASSACHUSETTS TO STAGGERED TERMS OF SEVEN YEARS EACH. MEMBERS SERVE WITHOUT COMPENSATION.

Richard A. Giesser, chairman, is a management consultant. Term expires 1995.

Paul W. Cronin, vice chairman, is president of Highline Industries, Inc., a manufacturing company headquartered in Lawrence, Massachusetts. Term expires 1998.

Carolyn P. Partan is a real estate attorney at the Boston law firm of Hale and Dorr. Term expires 1996.

Frederick P. Salvucci is a principal research associate at MIT's Center for Transportation Studies. Term expires 1997.

James H. Carangelo is president of Business Planning Associates, an employee benefit sales and consulting firm. Term expires 1999.

George W. Cashman is president and chief executive officer of the International Brotherhood of Teamsters, Local #25 in Charlestown. Term expires 2000.*

Kathleene B. Card is a consultant in the Boston area. Term expires 1994.**

*Mr. George W. Cashman replaces Mr. Charles M. Raso whose term expired in June, 1993.

**Ms. Kathleene B. Card replaces Ms. Jacquelyn R. Smith.

Last spring, Massport was saddened by the loss of Board Member Jacquelyn R. Smith, following a

Report

of Independent Public Accountants

TO THE MEMBERS OF THE MASSACHUSETTS PORT AUTHORITY:

WE HAVE AUDITED THE ACCOMPANYING BALANCE SHEETS OF THE MASSACHUSETTS PORT AUTHORITY (A PUBLIC INSTRUMENTALITY OF THE COMMONWEALTH OF MASSACHUSETTS) AS OF JUNE 30, 1993 AND 1992 AND THE RELATED STATEMENTS OF INCOME, CHANGES IN FUND EQUITY AND CASH FLOWS FOR THE YEARS THEN ENDED. THESE FINANCIAL STATEMENTS ARE THE RESPONSIBILITY OF THE MASSACHUSETTS PORT AUTHORITY'S MANAGEMENT. OUR RESPONSIBILITY IS TO EXPRESS AN OPINION ON THESE FINANCIAL STATEMENTS BASED ON OUR AUDITS.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Port Authority as of June 30, 1993 and 1992, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Arthur Andersen & Co

Boston, Massachusetts
September 30, 1993

Balance Sheets

June 30, 1993 and 1992

ASSETS

	1993	1992
	(in thousands)	
Cash and cash equivalents (Notes A and D)	**$ 8,609**	$ 9,726
Investments (Notes A and D)	**23,407**	12,360
Accounts receivable, net of allowance for doubtful accounts of $10,900 and $9,655 in 1993 and 1992, respectively (Note C)	**25,520**	18,210
Accounts receivable - grants (Note A)	**9,911**	16,084
Prepayments and other assets, net	**9,258**	11,595
Assets whose use is limited, including cash and cash equivalents of $27,001 and $14,200 in 1993 and 1992, respectively (Notes A, D, and H)	**334,360**	272,487
Investment in facilities (Notes A and E):		
Facilities completed	**1,134,054**	1,028,315
Less accumulated depreciation	**(492,300)**	(452,297)
	641,754	576,018
Construction in progress	**112,394**	132,437
Net investment in facilities	**754,148**	708,455
Total Assets	**$1,165,213**	$1,048,917

LIABILITIES AND FUND EQUITY

Liabilities

	1993	1992
Accounts payable and accrued expenses (Note H)	**$ 32,890**	$ 30,602
Accrued compensated absences (Note A)	**7,457**	6,608
Accrued pension cost (Note G)	**2,857**	3,336
Accrued interest payable	**18,150**	17,575
Funded debt (Note F)	**550,123**	456,939
Deferred income	**2,662**	3,710
Total Liabilities	**614,139**	518,770
Contingent liabilities and commitments (Notes I and K)		
Fund Equity (Notes A and B)		
Accumulated fund equity	**449,192**	439,965
Contributed capital, grants-in-aid of construction	**101,882**	90,182
Total Fund Equity	**551,074**	530,147
Total Liabilities and Fund Equity	**$1,165,213**	$1,048,917

The accompanying notes are an integral part of these financial statements.

Statements

Of Income

For the years ended June 30, 1993 and 1992

	1993	1992
Revenues (Note B):	(in thousands)	
Tolls, fees and sales of services	**$ 117,429**	$ 112,862
Rentals (Note L)	**55,431**	49,409
Concessions (Note L)	**28,851**	25,511
Income on investments (Note A)	**11,487**	14,158
Other (Note I)	**17,672**	5,465
Total Revenues	**230,870**	207,405
Expenses (Note B):		
Operations and maintenance	**86,402**	77,328
Administration	**38,264**	36,866
Insurance (Note A)	**3,748**	4,087
Pension costs (Note G)	**2,863**	2,586
Interest (Notes A and I)	**26,490**	26,604
Payments in lieu of taxes (Note J)	**6,227**	11,533
Provision for uncollectible accounts	**1,245**	2,392
Depreciation and amortization including $5,281 and $4,046 in 1993 and 1992, respectively, on assets acquired with contributed capital, grants-in-aid of construction (Note A)	**39,261**	35,263
Other, net (Note I)	**10,000**	—
Total Expenses	**214,500**	196,659
Income before extraordinary item	**16,370**	10,746
Extraordinary Item:		
Loss from defeasance of debt (Note F)	**(12,424)**	—
Net Income	**$ 3,946**	$ 10,746

The accompanying notes are an integral part of these financial statements.

Statements

Of Changes In Fund Equity

For the years ended June 30, 1993 and 1992

	Accumulated Fund Equity	Contributed Capital, Grants in Aid of Construction	Total Fund Equity
		(in thousands)	
Balance, June 30, 1991	**$ 425,173**	**$70,772**	**$495,945**
Net income	10,746	—	10,746
Contributed capital, grants-in-aid of construction (Note A)	—	23,456	23,456
Transfer of depreciation to contributed capital	4,046	(4,046)	—
Balance, June 30, 1992	**439,965**	**90,182**	**530,147**
Net income	3,946	—	3,946
Contributed capital, grants-in-aid of construction (Note A)	—	16,981	16,981
Transfer of depreciation to contributed capital	5,281	(5,281)	—
Balance, June 30, 1993	**$ 449,192**	**$101,882**	**$551,074**

The accompanying notes are an integral part of these financial statements

Statements

Of Cash Flows

For the years ended June 30, 1993 and 1992

	1993	1992
	(in thousands)	
Cash Flows from Operating Activities:		
Cash received from customers	$ 199,512	$ 188,655
Cash payments:		
To vendors for goods and services	(80,048)	(73,290)
To employees for services	(51,175)	(47,420)
Payments in lieu of taxes	(6,227)	(11,533)
Net cash provided by operating activities	62,062	56,412
Cash Flows from Capital and Related Financing Activities:		
Grants-in-aid of construction	23,153	13,969
Acquisition and construction of capital assets	(99,704)	(75,023)
Proceeds from sale of bonds	199,250	—
Principal paid on refunded debt	(90,045)	—
Principal paid on funded debt	(7,800)	(6,355)
Interest paid on funded debt	(35,609)	(34,981)
Proceeds from interest rate swap termination	2,149	—
Net cash used for capital and related financing activities	(8,606)	(102,390)
Cash Flows from Investing Activities:		
Purchases of investments	(1,271,303)	(1,290,113)
Proceeds from sale and maturities of investments	1,215,757	1,310,767
Interest on investments	13,774	14,726
Net cash (used for) provided by investing activities	(41,772)	35,380
Net Increase (Decrease) in Cash and Cash Equivalents	11,684	(10,598)
Cash and Cash Equivalents, Beginning of Year	23,926	34,524
Cash and Cash Equivalents, End of Year	$ 35,610	$ 23,926
Noncash Activities:		
Disposal of fully depreciated building (Note I)	$ —	$ 4,900

The accompanying notes are an integral part of these financial statements

Statements

Of Cash Flows, continued

For the years ended June 30, 1993 and 1992

	1993	1992
	(in thousands)	
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 3,946	$ 10,746
Less: income on investments	(11,487)	(14,158)
Add: interest expense	26,490	26,604
extraordinary loss from defeasance of debt	12,424	—
	31,373	23,192
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	39,261	35,263
Provision for uncollectible accounts	1,245	2,392
Change in assets and liabilities:		
Increase in accounts receivable	(8,555)	(4,797)
Increase (decrease) in prepaid expenses and other	(2,486)	696
Increase (decrease) in accounts payable and accrued expenses	1,902	(2,079)
Increase in accrued compensated absences	849	544
Decrease in accrued pension cost	(479)	(451)
(Decrease) increase in deferred income	(1,048)	1,652
Total adjustments	30,689	33,220
Net cash provided by operating activities	$ 62,062	$ 56,412

The accompanying notes are an integral part of these financial statements.

Notes

To Financial Statements

The Massachusetts Port Authority (the Authority) is a public instrumentality created by an act of the Legislature (the Enabling Act) of the Commonwealth of Massachusetts (the Commonwealth), effective June 21, 1956. The Authority controls, operates and manages Boston-Logan International Airport (Logan Airport), Hanscom Field, Maurice J. Tobin Memorial Bridge (Tobin Bridge) and other facilities in the Port of Boston. The Authority has no stockholders or equityholders. The provisions of the Enabling Act and the 1978 Trust Agreement (the Trust Agreement) with the Authority's bondholders govern the disposition of cash revenues to the various funds established under the Trust Agreement and restrict the use of such revenues credited to the various funds.

A. Summary of Significant Accounting Policies:

These financial statements have been prepared in conformity with generally accepted governmental accounting principles.

(1) Assets Whose Use Is Limited
The balance sheet caption, "assets whose use is limited," represents restricted or trusteed assets under the Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities and debt service. Assets to fund deferred compensation are included under this caption (See Note D).

(2) Statements of Cash Flows
For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including assets whose use is limited) with a maturity of 30 days or less when purchased to be cash equivalents.

(3) Investments
Investments in U.S. Government and agency securities are recorded at amortized cost, which approximates market value including accrued interest. Investments in repurchase agreements are recorded at cost including accrued interest.

(4) Self-Insurance
The Authority, as mandated by the Trust Agreement, maintains a self-insurance account within the operating fund. The Authority is self-insured for certain major catastrophe-type risks and workmen's compensation claims (effective January 1, 1993), but maintains insurance coverage for claims in excess of established limits. Investments used to fund self-insurance claims are included within "assets whose use is limited" in the accompanying balance sheets. (See Notes D and K).

(5) Investment in Facilities
Facilities are carried at cost and include the expenditure of federal grants-in-aid of construction and the cost of significant renewals and betterments. Federal grants-in-aid of construction are recorded as contributed capital as earned and amortized on the straight-line method over the estimated useful service lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred.

(6) Depreciation
Depreciation is provided on the straight-line method based on estimated useful service lives of the related assets beginning in the fiscal year of acquisition or during completion of construction. Depreciation is computed on facilities which are recorded in the accounts of the Authority, including those financed by grants-in-aid of construction.

(7) Interest Capitalization
The Authority capitalizes certain interest associated with the cost of restricted tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest on borrowings of \$9,694,000 and \$8,171,000, reduced by interest on investments of \$2,908,000 and \$3,840,000 for the years ended June 30, 1993 and 1992, respectively, has been capitalized as a part of the cost of construction projects.

Notes

To Financial Statements (continued)

A. Summary of Significant Accounting Policies, continued:

(8) Accounting for Compensated Absences
The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the caption "accrued compensated absences."

(9) Financial Statement Reclassification
Certain accounts in the June 30, 1992 financial statements have been reclassified to conform with the June 30, 1993 presentation.

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement:

The provisions of the Enabling Act and the Trust Agreement with the Authority's bondholders prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the Trust Agreement, monthly cash revenues of the Authority, after providing for required debt service costs on the Revenue Refunding Bonds, Series 1978, from pledged revenues, are transferred to the Operating Fund. After providing for operating expenses, including pension expense and transfers to the self-insurance account, cash revenues are then transferred to the Interest and Sinking Fund (which are applied to debt service on any outstanding bonds other than the Revenue Refunding Bonds, Series 1978), the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are transferred to the Capital Budget Account.

Under the provisions of the Trust Agreement, all revenues derived from the operation of the Tobin Bridge, all aircraft landing fees and motor vehicle parking fees derived from the operations of the airport properties and all income from investments held in all funds with the exception of the Construction Funds, Port Properties Fund and self-insurance account are pledged for the debt service requirements of the Revenue Refunding Bonds, Series 1978.

To the extent that pledged revenues exceed debt service requirements, they are available to meet operating expenses and for transfer to other funds. To the extent unexpended, these amounts continue to be available for the debt service requirements in any year.

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement, continued:

Presented below are the 1993 and summary 1992 revenue and operating expenses as determined in accordance with the Trust Agreement and a reconciliation to net income as presented in the accompanying Statements of Income under generally accepted governmental accounting principles (GAGAP).

(For Trust accounting purposes, the provision for uncollectible accounts is netted within the revenues caption.)

	Bridge	Airport Properties	Port Properties: Maritime	Port Properties: Development	Facilities Management	Income on Investments	**1993 Total**	1992 Total
				(in thousands)				
Revenues, Net:								
1978 Pledged Revenues	$ 5,237	$ 80,305	$ —	$ —	$ —	$ 10,720	**$ 96,262**	$ 96,380
Other	—	91,650	22,394	5,960	154	—	**120,158**	107,418
	5,237	171,955	22,394	5,960	154	10,720	**216,420**	203,798
Operating Expenses:								
Operations and Maintenance	3,157	63,416	17,502	2,312	15	—	**86,402**	77,328
Administration	2,494	28,285	5,195	2,175	115	—	**38,264**	36,866
Insurance	453	2,798	799	324	24	—	**4,398**	4,374
Pension (Note G)	212	2,571	408	147	4	—	**3,342**	3,037
	6,316	97,070	23,904	4,958	158	—	**132,406**	121,605
Excess (Deficit) of Revenues Over Operating Expenses Under Trust Agreement	(1,079)	74,885	(1,510)	1,002	(4)	10,720	**84,014**	82,193
Add: Self-Insurance Cost (1)	35	494	96	25	—	—	**650**	287
Pension Adjustment (1)	26	364	71	18	—	—	**479**	451
Difference on Sale of Equipment (2)	—	139	—	—	—	—	**139**	207
Income on Self-Insurance Investments (3)	—	—	—	—	—	767	**767**	858
Interest Rate Swap Termination Fees (3)	266	1,361	439	83	—	—	**2,149**	—
Gain From Taking of Land (3)	—	—	—	10,000	—	—	**10,000**	—
Credit Enhancement Fees (3)	—	150	—	—	—	—	**150**	150
Less: Payments In Lieu of Taxes (4)	(332)	(4,799)	(824)	(272)	—	—	**(6,227)**	(11,533)
Lease Restructuring and Parking Garage Escrow (4)	—	—	—	(10,000)	—	—	**(10,000)**	—
Loss from Defeasance of Debt	(1,554)	(6,290)	(3,873)	(707)	—	—	**(12,424)**	—
Interest Expense (4)	(3,282)	(16,781)	(5,409)	(1,018)	—	—	**(26,490)**	(26,604)
Depreciation and Amortization (4)	(3,192)	(26,796)	(5,598)	(3,675)	—	—	**(39,261)**	(35,263)
Net Income (Loss)	$ (9,112)	$ 22,727	$ (16,608)	$ (4,544)	$ (4)	$ 11,487	**$ 3,946**	$ 10,746

* Development includes activities related to the Authority's alternative use program, principally for Commonwealth Pier, Fish Pier and Hoosac Pier.

(1) Expensed under Trust Agreement, not an expense under GAGAP.

(2) Equipment is depreciated under GAGAP but not under Trust Agreement.

(3) Not revenue under Trust Agreement, revenue under GAGAP.

C. Accounts Receivable:

The following details the components of the Authority's accounts receivable at June 30, 1993. Summary 1992 information is also presented.

	Accounts Receivable	Allowance	Accounts Receivable, Net of Allowance	
			1993	1992
			(in thousands)	
Accounts Receivable - Trade	$23,299	$ (3,416)	**$ 19,883**	$17,951
Amounts Due From Bankrupt Customers	7,195	(7,195)	**—**	—
Amounts Due From the Massachusetts Highway Department (Note I)	5,926	(289)	**5,637**	259
Total	$36,420	$ (10,900)	**$ 25,520**	$18,210

Notes

To Financial Statements (continued)

D. Cash, Cash Equivalents and Investments:

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 1993 by the various funds and accounts established under the Trust Agreement with the Authority's bondholders. Summary 1992 information is also presented. (Assets designated for credit enhancement and deferred compensation are also included.)

Use defined for specific purposes:	Cash and Cash Equivalents	Investments	Assets Whose Use Is Limited: Cash, Cash Equivalents and Investments	1993 Total	1992 Total
				(in thousands)	
1978 Debt Service Fund	$ —	$ —	$ 32,698	**$ 32,698**	$ 32,453
Operating Fund	4,637	—	628	**5,265**	5,549
Self-insurance Account	—	—	17,067	**17,067**	15,369
Maintenance Reserve	—	—	69,382	**69,382**	63,484
Payments In Lieu of Taxes	—	—	3,694	**3,694**	3,529
Capital Budget	—	—	58,360	**58,360**	57,096
Improvement and Extension Fund	3,972	23,407	431	**27,810**	18,049
1985 Interest and Sinking Fund	—	—	11,003	**11,003**	12,611
1988 Interest and Sinking Fund	—	—	13,007	**13,007**	13,548
1988 Construction Fund	—	—	—	**—**	23
1990 Interest and Sinking Fund	—	—	11,876	**11,876**	10,459
1990 Construction Fund	—	—	11,727	**11,727**	43,545
1992 Interest and Sinking Fund	—	—	7,676	**7,676**	—
1992 Construction Fund	—	—	73,160	**73,160**	—
1993 Interest and Sinking Fund	—	—	2,207	**2,207**	—
1993 Project Fund	—	—	302	**302**	—
Credit Enhancement Account (Note I)	—	—	9,925	**9,925**	9,952
	8,609	23,407	323,143	**355,159**	285,667
Deferred Compensation (Note H)	—	—	11,217	**11,217**	8,906
Total	$8,609	$23,407	$334,360	**$ 366,376**	$294,573

The carrying amount of the Authority's cash deposits was $1,526,000 and $1,237,000 at June 30, 1993 and 1992, respectively. The bank balance was $2,081,000 and $3,657,000 at June 30, 1993 and 1992, respectively. The nature of the reconciling items between the book and bank balances consisted primarily of outstanding checks which had not cleared the bank at year-end. The bank balance was fully collateralized as of June 30, 1993 and 1992 to the extent not insured.

D. Cash, Cash Equivalents and Investments, continued:

The following summarizes the Authority's cash and investments by type held at June 30, 1993. Summary 1992 information is also presented.

	Carrying Amount	Market Value
	(in thousands)	
Certificates of Deposit	$ 101	$ 101
Repurchase Agreements	69,684	69,683
U.S. Government and Agency Securities:		
Treasury Notes	148,382	149,326
Treasury Bills	36,027	36,219
Federal Farm Credit (FFC)	11,468	11,584
Federal National Mortgage Association (FNMA)	41,796	41,749
Federal Home Loan Bank (FHLB)	28,096	28,254
Federal Home Loan Mortgage Corp. (FHLMC)	10,199	10,217
U.S. Treasury Zero Coupon	6,877	6,914
Total U.S. Government and Agency Securities	282,845	284,263
Fidelity U.S. Treasury Income Portfolio Mutual Fund	1,003	1,003
Total investments	353,633	355,050
Cash in bank	1,526	1,526
Total at June 30, 1993	**$355,159**	**$356,576**
Total at June 30, 1992	**$285,667**	**$288,262**

The Authority is authorized by the Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in bank time deposits and in repurchase agreements. All investments, including repurchase agreements, are registered and held on behalf of the Authority by the Authority's Trustee and custodian.

The Certificates of Deposit are fully insured by the Federal Depository Insurance Corporation. Repurchase agreements are collateralized by obligations of the U.S. Government or agencies of the U.S. Government. The Trust Agreement requires that securities underlying repurchase agreements must have a market value at least equal to the cost of the agreement plus accrued interest. The Fidelity U.S. Treasury Income Portfolio Mutual Fund is not guaranteed by the U.S. Government.

E. Investment in Facilities and Depreciation:

Net investment in facilities at June 30, 1993 and 1992 is comprised of:

	1993	1992
	(in thousands)	
Facilities completed by operation:		
Airports	$ 778,221	$ 683,282
Bridge	86,611	86,058
Port	269,222	258,975
Investment in facilities	$ 1,134,054	$1,028,315
Facilities completed by type:		
Land and land improvements	$ 113,247	$ 112,500
Bridge and bridge improvements	83,947	83,641
Buildings	617,386	533,353
Runways and other paving	257,660	248,604
Machinery and equipment	61,814	50,217
	$ 1,134,054	$1,028,315
Accumulated depreciation and amortization	(492,300)	(452,297)
	641,754	576,018
Construction in progress	112,394	132,437
Net investment in facilities	$ 754,148	$ 708,455

Estimated useful asset lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 and 25 years
Airport facilities - buildings, runways and other paving	10 and 25 years
Port facilities - buildings and piers	25 years
Machinery and equipment	10 years

In August of 1993, the Authority received approval from the Federal Aviation Administration (FAA) to impose a $3.00 passenger facility charge (PFC) at Logan Airport, effective November 1, 1993. PFCs collected by the Authority can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. The Authority may collect net PFCs up to $598,800,000 for the period of November 1, 1993 through October 1, 2011. The FAA has approved PFC funding for eleven proposed projects that will comprise a significant portion of the Logan capital projects program. The Authority may leverage the PFC proceeds through bond offerings to the extent necessary to construct eligible projects.

F. Funded Debt:

The following is a summary of the Authority's funded debt activity for the years ended June 30, 1993 and 1992:

	1993	1992
	(in thousands)	
Funded debt, beginning of year	**$ 459,340**	$ 465,695
New debt issued	**199,250**	—
Debt refinanced	**(90,045)**	—
Principal paid on funded debt	**(7,800)**	(6,355)
Funded debt, end of year	**$ 560,745**	$ 459,340

Funded debt at June 30, 1993 and 1992 is comprised of the following:

	Weighted Average Interest Rate at June 30, 1993	1993	1992
Revenue Refunding Bonds		(in thousands)	
Series 1978	6.8%	**$ 27,735**	$ 32,280
Series 1985 - A & B	8.6%	**3,320**	11,950
Series 1993 - A & B	5.0%	**56,780**	—
Revenue Bonds			
Series 1988-A	7.1%	**4,350**	22,540
Series 1990-A	7.1%	**21,780**	22,800
Series 1992 - A & B	5.2%	**24,955**	—
Term Bonds	6.9%	**421,825**	369,770
Total Funded Debt		**560,745**	459,340
Less: Original Issue Discount		**(10,622)**	(2,401)
Total		**$550,123**	$ 456,939

Scheduled principal payments on funded debt are as follows:

Fiscal Year	Amount (in thousands)
1994	$ 8,310
1995	11,315
1996	12,005
1997	12,780
1998	13,545
Thereafter	502,790
Total	$ 560,745

F. Funded Debt, continued:

On March 15, 1993, the Authority issued $107.5 million in Revenue Refunding Bonds with interest rates of 2.75% to 5.625% to advance refund $90 million of outstanding 1985 and 1988 term bonds with an average interest rate of 7.9%. The net proceeds of $100.5 million, after original issue discounts of $5.7 million and $1.3 million of underwriting fees and other issuance costs, were used to purchase U.S. Government and Agency Securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for the future debt service payments of the refunded portion of the 1985 and 1988 bonds. As a result, approximately 67.6% of the 1985 bonds and 43.7% of the 1988 bonds are considered to be defeased and the liability for those bonds has been removed from the Authority's funded debt.

Although the advance refunding resulted in the recognition of an accounting loss of $12.4 million for the year ended June 30, 1993, the Authority will reduce its aggregate debt service payments by approximately $29 million over the next 26 years and achieve an economic gain (the difference between the present values of the old and new debt service payments) of $15.3 million.

Additionally, in prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the Trustee for such bonds to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 1993, the following bonds outstanding are considered defeased:

	(in thousands)
1964 Series	$ 29,910
1969 Series	46,195
1971 Series	59,840
1973 Series	83,335
1982 Series	51,700
1985 Series	47,450
1988 Series	42,595
Total Defeased Bonds	$361,025

G. Pension Costs:

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the "Massachusetts Acts of 1978" and signed into law on July 18, 1978. This enactment provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System" (the Plan), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to this enactment, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay-as-you-go" method. Pursuant to this enactment, the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Authority funds pension costs based on the actuarially determined annual pension expense which includes current service cost and the amortization, over a 20-year period, of unfunded prior service costs. This annual pension contribution, as actuarially determined, includes a factor for the reimbursement to the Commonwealth for amounts expended by the Commonwealth on account of the Authority's employees retired prior to January 1, 1979.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately $40,379,595 as of January 1, 1993. Total payroll for Authority employees was $49,329,331 for the year ended June 30, 1993.

The actuarial cost method utilized to determine contributions to the Plan for the years ended December 31, 1992 and 1991 is the entry age normal-frozen initial liability cost method.

G. Pension Costs, continued:

The more significant actuarial assumptions underlying the actuarial computations for the years ended December 31, 1992 and 1991 are as follows:

Assumed rate of return on investments and discount rate for pension benefit obligations	-	8.0% per annum compounded annually
Nondisabled life mortality basis	-	1983 Group Annuity Mortality Table for males for 1992; the 1971 Group Annuity Mortality Table for males and the same table with ages set back six years for females for 1991
Employee turnover basis	-	Based on an actuarial table developed from statewide experience for 1992; and actuarial table T-5 from the Pension Actuaries Handbook for 1991
Salary escalation	-	6.0% per annum
Retirement	-	Age 63 or age as of the valuation date if later for Group 1 and 2 employees (non-firefighters) in 1991 and 1992
	-	Age 55 for Group 4 employees (firefighters) in 1992 and age 63 or age as of the valuation date if later in 1991
Retirement benefits	-	2.3% per year of service for Group 1 and 2; 2.5% per year of service for Group 4
Postretirement cost of living increases	-	4.5% per annum compounded annually on the first $9,000 of pension benefits

G. Pension Costs, continued:

The amount shown below as "pension benefit obligation" (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other Public Employee's Retirement Systems Plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan.

At January 1, 1993, the assets in excess of the PBO were $30,406,000, determined as follows:

	(in thousands)
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	$ 26,872
Current employees:	
Employee financed	23,698
Employer financed-vested	4,493
Employer financed-nonvested	28,737
Total pension benefit obligation	83,800
Net assets available for benefits, (market value of $116,549)	114,206
Assets in excess of pension benefit obligation	$ 30,406

G. Pension Costs, continued:

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded actuarial accrued liability in level amounts over a period of 20 years.

Total contributions to the Plan were $6,068,161 for the Plan year ended December 31, 1992. This includes employee contributions of $2,868,661 which are based upon a percentage of employee base pay (5% for employees hired before December 31, 1974, 7% for employees hired between January 1, 1975 and December 31, 1983 and 8% for employees hired after December 31, 1983 and, effective January 1, 1988, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978) and employer contributions of $3,199,500 which were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed for the Plan's fiscal year beginning January 1, 1992. Employer contributions consisted of (a) $610,000 normal cost, (b) $2,292,000 amortization of the unfunded actuarial accrued liability and (c) $297,500 funding for operating costs.

The contributions made by the employees and employer of covered payroll during the last three years are as follows:

Plan Year	Employees	Employer
1990	8%	9%
1991	7%	8%
1992	7%	8%

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

Set forth below is a table listing six-year historical trend information of the Plan. (Trend information related to plan years 1983 through 1986 is unavailable.)

Plan Year	(1) Net Assets Available for Benefits	(2) PBO	(3) Percentage Funded (1) / (2)	(4) Assets in Excess of PBO (1) - (2)	(5) Annual Covered Payroll	(6) Assets in Excess of PBO as a Percentage of Annual Covered Payroll (4) / (5)
			(in thousands)			
1987	$ 47,700	$ 43,661	109%	$ 4,039	$ 21,268	19%
1988	54,212	50,274	108%	3,938	25,975	15%
1989	63,151	58,914	107%	4,237	25,998	16%
1990	76,687	63,937	120%	12,750	29,397	43%
1991	83,228	72,779	114%	10,449	31,575	33%
1992	114,206	83,800	136%	30,406	40,380	75%

G. Pension Costs, continued:

Analysis of the dollar amounts of net assets available for benefits, PBO and assets in excess of the PBO, in isolation, can be misleading. Expressing the net assets available for benefits as a percentage of the PBO provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System. Trends in assets in excess of PBO and annual covered payroll are both affected by inflation. Expressing the assets in excess of PBO as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

For the financial statements prepared in accordance with generally accepted governmental accounting principles, pension expense includes current service cost and amortization of past service costs which were determined as of July 1, 1973, over a 25-year period, commencing in 1974. Total pension expense so determined was $2,863,000 and $2,586,000 for the years ended June 30, 1993 and 1992, respectively.

In addition to providing pension benefits, the Authority provides certain health care benefits for approximately 246 retired employees through insurance company contracts. The Authority recognizes the cost of providing those benefits by expensing the insurance premiums when paid. This expense was $962,000 and $885,000 for the years ended June 30, 1993 and 1992, respectively.

H. Deferred Compensation:

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Authority (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Authority's general creditors. Participants' rights under the plan are equal to those of general creditors of the Authority in an amount equal to the fair market value of the deferred account for each participant. It is the opinion of the Authority's legal counsel that the Authority has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Authority believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The market value of the deferred compensation plan assets and the total amount of deferred compensation, including income earned, were $11,217,000 and $8,906,000 at June 30, 1993 and 1992, respectively. These amounts are included in the accompanying balance sheets under the captions "assets whose use is limited" and "accounts payable and accrued expenses."

I. Contingent Liabilities and Commitments:

Contractual Obligations for Construction:
Contractual obligations for construction were approximately $149,808,000 at June 30, 1993.

Forward Interest Rate Swap:
In fiscal 1993, the Authority entered into a forward interest rate swap arrangement in the initial notional amount of $71,715,000 which will take effect on July 1, 1995 for the seven-year period ending June 30, 2002 with a portion continuing through December 31, 2002. Under this arrangement, the Authority will pay interest at 6.405% per annum and receive interest at a floating rate. The Authority intends to redeem the 1985 Bonds and 1988 Bonds that were not advance refunded with the proceeds of the 1993 Bonds on or before July 1, 1995 with floating rate tax-exempt refunding bonds in order, as nearly as practicable, to match the floating rate interest received under the swap arrangement. This arrangement modified and replaced the forward interest rate swap arrangement which existed at June 30, 1992. The Authority received approximately $2,149,000 as a result of terminating the previous interest rate swap agreement. This amount is included within other revenue on the accompanying statements of income.

The Authority does not anticipate any losses over the term of this agreement.

Credit Enhancement Agreement:
During fiscal 1991, the Authority entered into a credit enhancement agreement in connection with an unrelated partnership's bond issuance. The bonds were issued to provide financing to the partnership (the Borrower) for construction, which was completed in fiscal 1993, of a conference center and hotel located at Logan Airport. The credit enhancement agreement represents a guarantee by the Authority to pay bondholders up to $9.7 million, in the event the Borrower does not have sufficient funds (as defined) to meet its debt service requirements.

In the opinion of the Authority's management, an advance against the credit enhancement agreement may occur during the next 24 months; any such advance, then taking the form of a loan from the Authority to the Borrower, would be repaid at 10% interest.

Third Harbor Tunnel:
The Massachusetts Highway Department (MHD), is in the process of extending the eastern terminus of the Massachusetts Turnpike to Logan Airport by constructing a new tunnel under Boston Harbor. The Authority is not responsible for the construction of the project or for its financing and is under no obligation to assume any responsibility for such matters or for the operation of the tunnel.

The Third Harbor Tunnel Project (the Tunnel Project) affects the Authority in a variety of ways. The effects include the necessity of eminent domain takings or land acquisitions by the MHD of certain real property in South Boston and Logan Airport to accommodate the construction and operation of the Tunnel Project. On October 3, 1991, the Authority and the MHD entered into a Sale/Mitigation Agreement (the Agreement) to establish a framework for land acquisitions by the MHD for the Tunnel Project. Specifically, the Agreement provides for acquisitions of Authority land by purchase by the MHD, coupled with mitigation by the MHD of the effects of such acquisitions. Mitigation will include, for example, provision of replacement parking, construction of temporary roadways and payment of increased operating expenses and lost revenues. In addition, the Agreement provides that the Authority

I. Contingent Liabilities and Commitments, continued:

will retain substantial rights in the land acquired by the MHD; air and development rights over the below-ground surface portions of the Tunnel Project, for example. Moreover, the Agreement provides that the MHD perform necessary hazardous waste remediation associated with the land acquired for the Tunnel Project. The Authority expects that the acquisitions will not ultimately result in any material change in its financial position.

In January 1993, the Authority received $10,000,000 from the MHD for a taking of land by eminent domain in connection with construction of the Tunnel Project. The Authority paid approximately $7,233,000 of the proceeds to a tenant as part of a restructured lease agreement, to mitigate the impact of the acquisition by the MHD. The remaining $2,767,000 was deposited in escrow as an incentive for the tenant to construct a parking facility. If the facility is not built, these funds will revert back to the Authority. The receipt and payment of the $10,000,000 are reflected on the accompanying Statements of Income as other revenues and other expenses, respectively.

In August 1993, the Authority entered into a Second Agreement and Waiver with the MHD involving the permanent and temporary takings of certain properties at the Logan Airport. Under the agreement, the Authority is to receive $16,000,000 for the takings, including reimbursement for the permanent and temporary loss of revenues and additional operating expenses which amount to $5,638,000 in fiscal 1993. Accordingly, the Authority, in fiscal 1993, recognized revenue of approximately $2,643,000 and reduced expenses by approximately $2,995,000 as an offset to the additional operating expenses.

The total amount to be received from the MHD for the takings described above will be subject to an offset of up to $5,000,000 for remediation of hazardous materials of such properties. This offset, when determined, will be applied against the proceeds to be received from future takings.

J. Payments In Lieu of Taxes:

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements to make annual payments in lieu of taxes to Boston, Chelsea and Winthrop. In fiscal 1992, the Authority's obligation to Chelsea for annual in lieu of tax-payments through 2012 was satisfied by a payment of $5,000,000. For fiscal 1994, it is anticipated that the payments pursuant to these agreements and annual extensions shall be approximately $6,227,000; of which approximately $211,000 is subject to an annual adjustment in accordance with an index related to the consumer price index and Logan Airport commercial passenger enplanements.

The agreements extend from 1995 through 2012 and may be further extended. The annual payments are not to exceed the balance of revenues remaining after deposits to the 1978 Debt Service Fund, payment of operating expenses, deposits to the 1985, 1988 and 1990 Interest and Sinking Funds and deposits to the Maintenance Reserve Fund.

K. Litigation:

Potential Logan Airport Soil and Groundwater Contamination:

In April 1991, the Massachusetts Department of Environmental Protection (DEP) sent the Authority a Notice of Responsibility under M.G.L. c. 21E, Section 5(a) alleging that there have been releases of oil and hazardous materials at Logan Airport and that, as the owner of Logan Airport, the Authority is a "responsible party" liable for the costs of investigating, assessing and remediating soil and groundwater contamination at Logan Airport. The Authority has completed its Phase I Limited Site Investigation under the Massachusetts Contingency Plan and has submitted its Phase II Comprehensive Site Investigation to DEP for review. While the full nature and extent of releases and any necessary remedial and cleanup measures have yet to be determined, response costs under c. 21E may be substantial. The Authority, however, expects to be able to recoup some of its costs of compliance with c. 21E from third parties who are responsible for the contamination and from liability insurance carriers who provided coverage to the Authority. The Authority expects to recover any remaining costs of compliance through rates and charges levied upon users of Logan Airport.

In addition, the Authority is a defendant in a number of legal proceedings arising in the normal course of business. Management, after reviewing all actions and proceedings pending against or involving the Authority with legal counsel, believes that the aggregate liability or loss, if any, resulting from the final outcome of those proceedings will not materially affect the Authority's financial statements.

L. Leases:

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income from contingent payments received under these provisions was approximately $26,669,000 and $21,536,000 for 1993 and 1992, respectively.

Minimum future rental income, excluding contingent rentals, from noncancelable operating leases as of June 30, 1993 are:

Year	Amount (in thousands)
1994	$ 21,325
1995	19,871
1996	19,096
1997	18,416
1998	17,496
Thereafter	275,295
Total	$ 371,499

M. Related Party Transactions:

The Authority has a lease agreement with the Commonwealth for office space at the State Transportation Building which expires on June 30, 1995. The Authority paid rental fees of approximately $1,463,000 for the year ended June 30, 1993. The Authority's commitments to the Commonwealth for this lease are approximately $1,420,000 and $1,472,000 for 1994 and 1995 respectively.

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